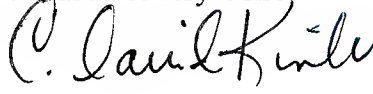




Homeland
Security

December 18, 2007

MEMORANDUM FOR: Sidney Melton, Director
FEMA's Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director 
Eastern Regional Office

SUBJECT: *Audit of Hurricane Katrina
Activities for City of Ocean Springs, Mississippi*
Public Assistance Identification Number: 059-53520-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-08-03

We performed an audit of disaster costs associated with Hurricane Katrina activities for the City of Ocean Springs, Mississippi. The objectives of the audit were to determine whether the city was properly accounting for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency's (FEMA) disaster assistance programs.

As of January 23, 2007, the cut-off date of our review, the city had received an award of \$6.3 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures, debris removal, and other disaster-related activities. The award provided for 24 large projects and 28 small projects¹. We reviewed costs totaling \$2 million under 7 large projects (see Exhibit). The audit covered the period August 29, 2005, to January 23, 2007, during which the city received \$1.7 million of FEMA funds under the 7 large projects.

We performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. We reviewed the city's disaster grant accounting system and contracting policies and procedures; selected judgmental samples of project expenditures; interviewed city, MEMA, and FEMA personnel; and performed other procedures considered necessary under the circumstances. We did not assess the adequacy of the city's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the city's grant accounting system and its policies and procedures for administering the activities provided for under the FEMA award.

¹ Federal regulations in effect at the time of Hurricane Katrina set the large project threshold at \$55,500.

RESULTS OF AUDIT

The city's accounting system did not separately account for project expenditures on a project-by-project basis as required by federal regulations. Also, the city did not comply with federal contracting regulations when awarding a debris removal contract. Further, we identified \$102,244 of questioned costs resulting from ineligible and duplicative project charges.

- A. Project Accounting. The city's accounting system did not separately account for expenditures on a project-by-project basis, as required by federal regulations (44 CFR § 13.20 and 206.205). The city established a fund (Account No. 167) in its accounting system to accumulate all disaster-related costs and receipts for all projects but not on a project-by-project basis. As a result, total costs claimed under individual projects could not be readily identified.

During our review, we alerted city officials and they established subsidiary records for each project. However, the subsidiary records were not completed at the conclusion of our review.

- B. Contracting Procedures. Federal procurement regulations (44 CFR § 13.36) allow grant recipients to use time-and-material contracts when a determination has been made that no other form of contracting is suitable and with a contract ceiling price that the contractor exceeds at its own risk. For debris removal, FEMA's *Debris Management Guide* (FEMA 325, April 1999, p. 28) requires that time-and-material contracts be generally limited to a maximum of 70 hours for emergency work. In addition, federal regulations require a cost or price analysis in connection with every procurement action, including contract modifications, to determine the reasonableness of the proposed contract price.

The city did not comply with federal procurement regulations or FEMA guidelines when contracting for debris removal from city streets. Under Project 3300, the city hired a contractor using time-and-material contracting without performing a cost or price analysis, or establishing a cost ceiling. In addition, work under the contract went beyond the permissible 70-hour time limit. The city paid the contractor \$319,415 for work that commenced on August 30, 2005, and continued until September 30, 2005.

Also, the city did not adequately monitor the work of contractor crews. Monitoring activity was the responsibility of a city employee that provided reports to the city's public works department on the status of cleared streets. The city did not maintain daily logs or activity reports that documented contractor activities, such as the number of personnel and number and type of equipment used, which are necessary for validating contractor invoices. FEMA's *Public Assistance Guide* (FEMA 322, July 2001, p. 40) states that time-and-material contracts should be avoided, but if they are used, contractor expenses must be carefully monitored and documented. As a result of the city's contracting and monitoring shortcomings, FEMA has no assurance that the contract costs were reasonable.

- C. Project Charges. The city's claim under Project 578 contained \$28,371 of ineligible charges. The city claimed labor costs of \$14,836 for city planning department employees who performed their normal duties and not emergency protective measures, which were the approved activities under the project.

Also, the city claimed \$13,535 of labor costs for city administrative personnel who worked with FEMA/MEMA officials on completing forms necessary for requesting FEMA assistance, formulating project worksheets, attending FEMA/MEMA meetings, and other activities associated with requesting, obtaining, and administering the FEMA award. Under federal regulation (44 CFR § 206.228 (a) (2)(ii)), the subgrantee automatically receives a separate statutory administrative allowance to cover those costs. Accordingly, we question the \$13,535 claimed for those activities.

- D. Duplicate Charges. The city's claim included duplicate project charges of \$60,268, as follows:

- Under Project 1709, the city claimed \$18,970 for repairs to sanitary sewer lift stations. These costs were also reimbursed to the city by the U.S. Environmental Protection Agency under its Management, Operations, and Maintenance Program. According to the Stafford Act (Section 312), FEMA funds cannot be used for expenditures recoverable from another federal program.
- Under Project 1709, the city was reimbursed twice for the purchase of lift station parts. The vendor submitted an invoice to the city for \$30,966 that contained a unit price error. Upon realizing the error, the vendor submitted a revised invoice for \$38,966. The city inadvertently paid the vendor for both invoices and claimed total charges of \$69,932 to the FEMA project, resulting in a duplicate charge of \$30,966.
- Under Project 578, the city claimed costs of \$10,332 that had already been claimed and reimbursed under Project 530. The expenditures covered the period September 10 through November 26, 2005, and represented payments to security guards, which were included in the work scope of Project 530 and not Project 578.

- E. Federal-Aid Roads. Under Project 3300, we identified \$13,605 of costs associated with debris removal from federal-aid roads. City officials met with the Federal Highway Administration (FHWA) representatives in October 2005 and completed a detailed damage inspection report totaling \$13,605, which covered the initial push of debris from federal-aid roadways. The city, however, had not reduced project costs for these expenditures. According to the Stafford Act (Section 312), FEMA funds cannot be used for expenditures recoverable from another federal program. Accordingly, we question the \$13,605.

RECOMMENDATIONS

We recommend that the Director, Mississippi Transitional Recovery Office, in coordination with MEMA:

1. Require the city to complete the subsidiary record to ensure that current and future project expenditures are accounted for separately.
2. Inform the city to comply with federal procurement regulations for any future contracts under the FEMA award.
3. Disallow questioned costs of \$102,244.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with MEMA, FEMA, and city officials on August 31, 2007. City officials concurred with the findings.

Please advise me by February 19, 2008 of the actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please call me at (404) 832-6702 or Larry Arnold at (228) 385-1717. Key contributors to this assignment were Larry Arnold, Gary Rosetti, and Robin Rowan.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, Gulf Coast Recovery Office
Regional Director, FEMA Region IV
Public Assistance Office, FEMA Mississippi Transitional Recovery Office
Chief of Staff, FEMA Mississippi TRO
Mississippi State Coordinating Officer
Mississippi Legislative Auditor
Director of Finance, Gulf Coast Recovery Office

City of Ocean Springs, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Awarded, Costs Claimed, Reviewed, and Questioned
August 29, 2005 through January 23, 2007

Project Number	Amount Awarded	Project Costs Claimed	Project Costs Reviewed	Amount Questioned
530	\$520,829	\$322,709	\$322,709	
578	251,378	184,632	184,632	\$38,703
1442	230,283	230,283	230,283	
1709	1,014,563	601,000	546,457	49,936
3300	317,595	317,595	317,595	13,605
8568	100,826	100,826	100,826	
9625	330,570	330,560	330,560	
Totals	\$2,766,044	\$2,087,605	\$2,033,062	\$102,244